

Will Impeachment Talk Affect the Market?

By Bob Deitrick, CEO

October 1st, 2019

After a tumultuous week of news unlike anything we've seen in the past 45 years, last Thursday culminated with a whistleblower complaint against the President being released to the public and to Congress. We suspect this will prompt an impeachment inquiry into the President, and his key staff, by the House of Representatives. We are not gleeful about any of this. Indeed, no one should be. This is a sad situation for our country. However, despite this drama the markets held steady last week. Before the release of the complaint on Thursday, Trump warned in a tweet that "the markets would crash" if he were impeached. Last year he said, "everybody would be very poor" if he was removed from office. So far, the market has been innocuous to his concerns.

- Last week, and this week so far, the market was unaffected by the impeachment headlines. The Dow finished the week down slightly and was down only slightly after negative headlines about China re-surfaced on Friday. This week has been mixed so far with some poor manufacturing data which showed up this morning to start of the new quarter.*
- On Friday the 27th, to our disappointment, we learned the White House was weighing curbs on U.S. investment into China. This proposal would block all U.S. financial investments in Chinese companies. This strategy would impact trillions of dollars of investment and trade. This threat is preliminary and there is no timetable for the implementation of this strategy.*
- We see this as a feeble threat to move the Chinese and nothing more.*
- This is an attempt to create greater leverage in the trade talks which resume next week in Washington on October the 10th. Having said that, this will likely not work and we believe the threat of impeachment weakens the position of the White House with respect to China.*
- This news on Friday caused Alibaba and other Chinese companies to plunge... China's yuan weakened to 7.15 against the dollar as well. China will retaliate, that's a given, and that may impact the markets later in October. So far, this is appearing to be a lame threat.*
- In our view at PFP, the market is more concerned about the ongoing trade warfare with China and Fed policy more so than the impeachment headlines of today. Having said that, all this news creates uncertainty which is not good for the global or the domestic financial markets.*
- We believe this impeachment news will incentivize Trump to compromise and get the trade deal done, even a partial one, so that he has a win for 2020.*
- The dilemma is that the President has a lot of planes in the air. Now, it is time to land a few.*
- Will the President be convicted by the Senate? Today, we see this as unlikely. We have remarked in our seminars about this over the past year: Stocks plunged when Nixon resigned; however, the market soared when Clinton was impeached then acquitted by the Senate.*

Historically, the stock market tends to look past most political apprehensions, with little remedial impact and some volatility. Corporate earnings, the FED, and trade are the vital statistics as we close out this year – those factors will drive the market moving forward. What the market is focused on are the secondary and tertiary effects of any potential impeachment, as opposed to the actual impeachment itself. Albeit, conviction in the Senate is unlikely, public sentiment is already changing over the past week. Further, keep in mind that if the House presents seven different articles of

impeachment to the Senate, it only takes a conviction on one of the seven by the Senate to remove a President... only one.

It is not coincidental that since the trade war began in February of 2018, the market has hit all-time highs on 6 consecutive occasions, only to be beaten back by threats of an escalation to the trade war.



Should You Worry About Impeachment and your Account?

No, not yet. We do expect greater volatility as the House Intelligence probe ramps up and subpoenas go out this week. Let's review the historical impact of past impeachments on the markets.

There are three comparable situations of Impeachment from American history to review:

President Andrew Johnson's impeachment in 1868 began on Feb. 24th, 1868. Markets fell 0.3% by March 31 of that year. By the end of June, following Johnson's acquittal in the Senate, markets were up only 1.5% from their late February levels, according to figures from Global Financial Data.

The inquiry of President Nixon was announced on Halloween of 1973. The market fell 1.6% that day, 11% in a month and it slumped 33.4% over the next 12 months. The stock market fell hard leading up to President Nixon's near impeachment in 1974. He then resigned, within months of the low, in what became the biggest stock market crash since the Great Depression.

The inquiry into Bill Clinton was announced on Oct. 8th, 1998. The market fell 1.2% that day, then rebounded to an 18% gain over the next 30 days, rose 41.6% in six months and advanced 29% in 1999.

*The president's potential removal from office will create volatility but will have little bearing on the trend of the stock market we suspect. **Strong markets climb walls of worry.** What will impact the markets is an escalation to the trade war. Another serious correction would have a bearing on Trump's prospects; therefore, his hand may be forced to get a deal completed with China and soon.*

The economy and market sentiment today remain strong - especially among consumers who represent 70% of the U.S. economy. The economy was strong in 1998 as well; however, 1974 was a different

ballgame. Then, the U.S. was rattled by higher inflation, The Arab Oil embargo, price controls, and a struggle to adjust after Nixon ditched the gold standard.

There's no immediate material threat to the equity markets; however, an escalation of the trade war, the impeachment becoming a conviction in the Senate, or bad earnings this month could lead to greater uncertainty that may ripple through the global markets. Manufacturing showed some real concerns today as well:

- *Technology companies are warning of a rough patch ahead for earnings, with 29 firms cutting guidance for the 3rd quarter.*
- *That's the largest number since FactSet started tracking the data and comes amid heightened concerns over a global economic slowdown.*
- *Tariff-sensitive sectors, particularly semiconductors, are projected to show weak profits when earnings season kicks in by mid-October.*

Speaker Pelosi appears resolute that impeachment proceedings in the House are likely. Presidential removal would require a 2/3rd majority vote by the Senate. 40% of Republicans would need to vote against this President, but for that to happen, Trump's approval rating would need to sink into the low 30's. We are watching this news like a hawk on your behalf. If things become more ominous, we will move to safer havens in the form of bonds, utilities, defensive stocks, precious metals et al.

We believe the uncertainty of the impeachment narrative is a variable risk, but it will take serious escalation of the current status quo to entomb this 10-year bull market. Remember:

Strong markets, like this has been for a decade, tend to climb walls of worry...

"Teflon Don" has been an accurate portrayal of this President as he has been able to do what he wants for almost 3 years. However, that may change here... While Trump's impeachment and conviction by Congress are unlikely, we assure you that we are watching these events assiduously for you. Please do not worry. Let us do that for you. We will keep you posted as events emerge over the next few weeks and months. Most importantly, let's hope the China Trade War concludes and soon.

Our events coming up this 4th quarter follow below:

- *Our annual Board meeting in Savannah, Georgia is next week from October 8th to the 12th. (Please note that Steven and I will be out of the office most of this week).*
- *Our November Market Seminars will be held at Eddie's on November 13th and 15th.*
- *Our Annual Christmas Party will be held on Sunday, December 15th at Eddie Merlot's.*
- *Have a great week! Please call Steven or me with questions or to set up your next review.*

Securities offered through Cadaret Grant & Co., Inc., Member FINRA/SIPC. Advisory Services offered through Cadaret Grant & Co., Inc. or Polaris Financial Partners, LLC, Registered Investment Advisers. Cadaret Grant and Polaris Financial Partners are separate entities.